

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-01

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-04 AID-05 AGR-05 TRSE-00 OES-02 IO-04

FEA-01 COME-00 CIEP-01 /074 W  
----- 051196

P R 310625Z OCT 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 4407

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY DACCA

AMEMBASSY KATHMANDU

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E.O. 11652: N/A

TAGS: ECO, IN

SUBJ: FINANCE MINISTER REVIEWS INDIAN ECONOMY AND DEVELOPMENT  
PRIORITIES

REF: MADRAS 1360

--BEGIN UNCLASSIFIED:

1. THE EMBASSY HAS RECEIVED THE FOLLOWING TELEGRAM FROM CONSUL  
GENERAL EAVES IN MADRAS:

2A. FINANCE MINISTER C. SUBRAMANIAM DID WHAT HE CALLED SOME  
THINKING OUT LOUD ABOUT INDIA'S ECONOMIC SITUATION AND PRIORITIES  
IN ADDRESSING THE CONSULTATIVE COMMITTEE OF THE CITY CHAMBERS  
OF COMMERCE IN MADRAS ON OCTOBER 24. THE ESSENTIAL POINTS HE  
MADE WERE THAT THERE WILL BE NO RELAXATION OF TIGHT CREDIT;  
THAT EFFORTS TO CURB SMUGGLING, TAX EVASION, AND BLACK MONEY  
WILL BE TIGHTENED; AND THAT PRIORITY IN RESOURCE ALLOCATION MUST  
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BE GIVEN TO INCREASING AGRICULTURAL PRODUCTION AND OVERCOMING

POWER SHORTAGES. FOLLOWING BASED ON MY NOTES TAKEN DURING TALK.

2.B. DISCUSSING INTERNATIONAL ASPECTS OF WORLD INFLATION, SUBRAMANIAM NOTED THAT THERE HAS BEEN ECONOMIC DISARRAY SINCE THE DOLLAR WAS UNLINED FROM GOLD, THAT VIETNAM-CAUSED INFLATION DID CONSIDERABLE DAMAGE TO U.S. ECONOMY, AND THAT PRICES OF MATERIALS INDIA NEEDS HAD BEGUN TO CLIMB EVEN BEFORE OIL CRISIS. THE OIL CRISIS HAS HAD THE BENEFIT OF JOLTING THE INTERNATIONAL COMMUNITY INTO AN ENTIRELY NEW THINKING ABOUT RESOURCE CONSUMPTION, WITH THE SUPER POWERS AT LAST BEING FORCED TO REALIZE THE THE WORLD'S RESOURCES ARE LIMITED AND ARE NOT THERE SIMPLY FOR THEIR UNLIMITED EXPLOITATION.

2C. SUBRAMANIAM PRESENTED A SOBER REVIEW OF INDIA'S INTERNAL ECONOMIC PERFORMANCE. AGRICULTURE HAD LAGGED BEHIND TARGETS AND INDIA HAD ONLY BEGUN TO INTRODUCE SCIENCE AND TECHNOLOGY TO AGRICULTURAL PRODUCTION. DESPITE THE EXPECTATIONS AROUSED BY THE GREEN REVOLUTION, THERE WAS ONCE AGAIN TALK OF SUFFERING AND STARVATION IN INDIA. AGRICULTURAL PRODUCTION REACHED A HIGH OF 107 MILLION TONS OF GRAINS IN 1970-71, AND THE COUNTRY WAS NOW STRUGGLING TO KEEP PRODUCTION OVER 100 MILLION TONS. THE WEATHER HAS BEEN UNKIND AND POPULATION CONTINUES TO INCREASE RAPIDLY. INDUSTRY HAD STAGNATED FOR LACK OF POWER, COAL, AND TRANSPORTATION. GOI MONETARY POLICIES HAD BEEN EXPANSIONARY DURING THIS PERIOD OF INDUSTRIAL STAGNATION, ONLY SERVING TO FUEL INFLATION, THIS BENEFITED ONLY SPECULATORS AND SMUGGLERS, AND REDUCED THE GOVERNMENT TO THE ROLE OF A PASSIVE ADMINISTRATIVE CHANNEL FOR COLLECTING TAX MONEY AND DISTRIBUTING IT ALL TO GOVERNMENT EMPLOYEES IN SALARIES AND DEARNESS ALLOWANCES.

2D. PRESCRIBING WHAT NEEDS TO BE DONE TO CHANGE THINGS, SUBRAMANIAM SAID THAT IT IS FIRST ESSENTIAL TO CURB INFLATION. THIS MEANS CUTTING BACK DEFICIT SPENDING BOTH BY GOVERNMENT AND BUSINESS. RESOURCES ARE LIMITED. RELAXING THE CREDIT SQUEEZE AS RECOMMENDED BY MANY BUSINESSMEN COULD ONLY BE DONE BY ENLARGING THE MONEY SUPPLY, AND THIS WOULD JUST AGGRAVATE INFLATION. THERE WILL BE NO RELAXATION OF THE CREDIT SQUEEZE. SINCE CURBING THE LEGITIMATE MONEY SUPPLY ALONE WILL NOT CONTROL INFLATION, THE ATTACK ON SMUGGLING AND TAX EVASION, WHICH HAVE SPAWNED BLACK MONEY, WILL BE INTENSIFIED.

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2E. IN ADDITION TO CURBING INFLATION, SUBRAMANIAM CONTINUED, THE PROBLEM THAT MUST BE SOLVED IS HOW TO ALLOCATE EXISTING RESOURCES TO THE BEST ADVANTAGE. FIRST, HE SAID, WE HAVE TO FEED THE PEOPLE. THIS IS THE NUMBER ONE PRIORITY, FOR WITHOUT BOOSTING AGRICULTURAL PRODUCTION THE COUNTRY CANNOT SOLVE ANY OF ITS OTHER PROBLEMS. IT IS NO LONGER POSSIBLE, SUBRAMANIAM SAID,

TO HANDLE THIS MERELY BY IMPORTING FOOD FROM ABROAD. HE COMPLAINED THAT INTERNATIONAL ORGANIZATIONS LIKE FAO AND WHO HAVE ALSO NOT BEEN MUCH HELP, THE QTE THEY PASS HIGH SOUNDING RESOLUTIONS BUT DO NOT DELIVER THE GOOD UNQTE. INDIA WOULD HAVE TO INCREASE ITS OWN FOOD SUPPLIES, AND THE DEVELOPMENT OF FERTILIZER, PESTICIDE, AND SEED PRODUCTION WAS THEREFORE A MUST SECOND PRIORITY WOULD HAVE TO BE GIVEN TO THE EXPANSION OF THE INFRASTRUCTURE OF POWER, COAL, AND TRANSPORTATION. IN ALL BUT TWO OR THREE STATES, POWER CUTS WERE CHRONIC, AND POWER SHORTAGES MADE LOW UTILIZATION OF INDUSTRIAL POTENTIAL INEVITABLE.

2F. SUBRAMANIAM CONCLUDED BY ASSURING HIS AUDIENCE THAT INDIA WAS A LONG WAY FROM RECESSION. POINTING OUT THE TEXTILE INDUSTRY AS A SPECIFIC EXAMPLE, HE CHIDED BUSINESSMEN FOR GETTING SPOILED AND SO USED TO THE IDEA OF THE HIGH PRICES AND FAT PROFITS THEY HAD ENJOYED LAST YEAR THAT THEY WERE NOT RAISING UNJUSTIFIED CRIES OF PROTEST AND ALARM. THE MINUTE PRICES BEGAN TO EASE A BIT. HE SAID THE NATION NEEDED TO BECOME MORE DISCIPLINED, TO WORK HARDER, HAVE GREATER INTEGRITY, AND ACCEPT A BIT OF INCONVENIENCE IF NECESSARY, AND HE EXPECTED THE BUSINESS COMMUNITY TO BE THE STANDARD BEARER IN CREATING THIS NEW CLIMATE. END UNCLASSIFIED.

3A. BEGIN LIMITED OFFICIAL USE. CONSULATE GENERAL AND EMBASSY COMMENT: THE HARDNESS OF SUBRAMANIAM'S FIRST SPEECH AS FINANCE MINISTER CAME AS SOMETHING OF SHOCK TO BUSINESSMEN, ALTHOUGH THERE IS ALSO A FEELING OF RELIEF THAT SOMEONE IS FIRMLY TAKING CHARGE EVEN THOUGH THE CONSEQUENCES MAY BE PAINFUL. THE CREDIT SQUEEZE BEING APPLIED AGAIN FIRMS BY THE RESERVE BANK OF INDIA, UNDOUBTEDLY AT THE BEHEST OF THE MINISTRY OF FINANCE, HAS BECOME EXCRUCIATINGLY PAINFUL FOR A LARGE NUMBER OF FIRMS, MANY OF WHICH ARE IN IMMINENT DANGER OF DEFAULTING ON DEBT COMING DUE.

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3B. RECENT SIGNS IN THE BATTLE AGAINST INFLATION ARE ENCOURAGING. THE LATEST OFFICIAL DATA SHOW THAT WHOLESALE PRICES IN SEPTEMBER ROSE BY 1.5 PERCENT, OR ABOUT HALF THE AVERAGE MONTHLY RATE OF RISE EXPERIENCED DURING THE FIRST EIGHT MONTHS. UNOFFICIAL INDICATIONS FOR OCTOBER SHOW SIGNIFICANT PRICE DECLINED FOR A WIDE RANGE OF ITEMS. THE ECONOMIC TIMES WHOLESALE PRICE INDEX INDICATES THAT WHOLESALE PRICES AS A WHOLE MAY HAVE FALLEN DURING OCTOBER BY AS MUCH AS 5 PERCENT, WITH SUCH AN IMPORTANT ITEM AS WHEAT FALLING BY 13 PERCENT.

3C. IT IS APPARENT THAT SUBRAMANIAM DOES NOT FEEL THE BATTLE AGAINST INFLATION HAS YET BEEN WON AND THAT HE BELIEVES PRESSURE MUST BE KEPT ON A WHILE LONGER TO CONSOLIDATE THE GAINS. HIS REFERENCE TO SELECTIVE CREDIT INCREASES SUGGESTS THAT CREDIT WILL BE MADE AVAILABLE AS ABSOLUTELY NECESSARY TO KEEP IMPORTANT

FIRMS FROM GOING UNDER.  
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## Message Attributes

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